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4 Date:
5 Time:

FILED

NOV 30 2004

SUPERIOR COURT
JUDITH A. BOAL
THURSTON COUNTY CLERK

7 **STATE OF WASHINGTON**
8 **THURSTON COUNTY SUPERIOR COURT**

9 **MIKE KREIDLER,**
10 **INSURANCE COMMISSIONER,**

11 **Petitioner,**

12 **v.**

13 **CASCADE NATIONAL**
14 **INSURANCE COMPANY,**

15 **Respondent.**

NO. 04-2-02427-4

VERIFIED PETITION
FOR APPOINTMENT OF
RECEIVER
FOR THE PURPOSE OF SEIZING
A DOMESTIC INSURER

16 **I. JURISDICTION AND VENUE**

17 1.1 This Verified Petition for Appointment of Receiver for the Purpose of
18 Seizing a Domestic Insurer ("Petition") is filed pursuant to RCW 48.31.121, and the
19 authority granted the Insurance Commissioner for the State of Washington pursuant to
20 RCW 48.02.060; 48.31.111; and 48.99.020. This Court has jurisdiction pursuant to
21 RCW 48.31.111 and 48.31.190(1).

22 1.2 Venue is proper in Thurston County pursuant to RCW 48.31.190(1).

23 **II. PETITIONER**

24 2.1 Petitioner, Mike Kreidler, Insurance Commissioner, is the duly elected
25 Insurance Commissioner of the State of Washington and the head of the Office of the
26 Insurance Commissioner ("OIC"), whose primary offices are located at 5000 Capitol
Boulevard, Tumwater, WA, 98501. Acting on behalf of the Insurance Commissioner

1 in this receivership matter is James T. Odiorne, Deputy Insurance Commissioner for
2 Company Supervision, and Marshall McGinnis, Company Licensing Manager for the
3 OIC.

4 III. RESPONDENT

5 3.1 Respondent, Cascade National Insurance Company ("Cascade
6 National"), is a domestic stock insurance company that holds a certificate of authority
7 as a property and casualty insurer pursuant to chapter 48.05 RCW. Cascade National's
8 home office is located at 11100 N.E. 8th Street, Suite 800, Bellevue, WA 98004.

9 3.2 Cascade National engages in two primary lines of insurance business:
10 (1) private passenger automobile and commercial trucking; and (2) workers'
11 compensation. Cascade National entered the workers' compensation market, all of
12 which business is in California, in early 2004. Cascade National also owns a separate
13 corporation called MBR dba Allied Adjusting, Inc., which is an independent adjusting
14 firm.

15 3.3 Cascade National is a subsidiary of Legend Holdings, Inc. ("Legend"),
16 an insurance holding company and a for-profit domestic corporation located at 11100
17 N.E. 8th Street, Suite 800, Bellevue, WA 98004. Legend is owned 90.1% by an
18 individual person, Harold Anderson, and 9.9% by Gudeman & Weiss LLC. Gudeman
19 & Weiss LLC is owned by Edward Gudeman (5%), Eugene Weiss (5%), and Danny
20 Pixler (90%). The only business and asset of Legend is the insurance business of
21 Cascade National. Legend has no traceable source of revenue other than that which
22 could be derived from Cascade National.

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1 **IV. AUTHORITY OF THE COURT TO APPOINT A RECEIVER**
2 **FOR THE PURPOSE OF SEIZING CASCADE NATIONAL**

3 4.1 Cascade National operates as a domestic stock insurer pursuant to
4 chapter 48.08 RCW, and has been issued a certificate of authority to operate as a
5 property and casualty insurer pursuant to chapter 48.05 RCW.

6 4.2 The Insurance Commissioner is authorized to petition the Court for an *ex*
7 *parte* order without a hearing that allows the Commissioner to seize control of a
8 domestic insurer where there exists a ground that would justify a court order for formal
9 delinquency proceedings against the insurer. RCW 48.31.121(1)(a) and (2). The
10 seizure order is justified where the interests of policyholders, creditors, or the public
11 will be endangered by delay. RCW 48.31.121(1)(b). The Insurance Commissioner is
12 authorized to petition the Court for the contents of an order deemed necessary by the
13 Commissioner to take control of the insurer and ascertain the condition of the insurer.
14 RCW 48.31.121(1)(c).

15 4.3 The grounds to justify a formal delinquency proceeding against Cascade
16 National are that: (1) the insurer's capital is and is projected to be below the mandatory
17 control level for risk-based capital, RCW 48.05.455; (2) the insurer does not meet the
18 minimum capital and surplus requirements, RCW 48.05.340 and .360; (3) the insurer is
19 operating in a financially hazardous condition, RCW 48.31.030(5), WAC 284.16.310;
20 (4) the insurer has effectively ceded or is about to cede control of its operations to
21 persons and entities not qualified to engage in the business of insurance, RCW
22 48.31.030(4) and (13), WAC 284.16.310; and (5) the insurer "consented to such an
23 order through a majority of its directors, stockholders, members, or subscribers" if it
24 were deemed necessary by the Commissioner, RCW 48.31.030(9).

25 4.4 The Insurance Commissioner may appoint one or more deputy
26 commissioners or designees to act on his behalf. RCW 48.99.020(6). The

1 Commissioner is requesting that he be appointed Statutory Receiver; that James
2 Odiorne, Deputy Insurance Commissioner for Company Supervision, be appointed
3 Receiver; and that Marshall McGinnis, Company Licensing Manager, be appointed
4 Deputy Receiver.

5 **V. GROUNDS FOR THE APPOINTMENT OF A RECEIVER**

6 5.1 In 1998 Harold Anderson purchased Cascade National. At the time, Mr.
7 Anderson owned Kenneth I. Tobey, a managing general agency, which placed a
8 substantial amount of private passenger and commercial trucking business through
9 Cascade National. Mr. Anderson has since sold the agency to Certified Services, Inc.
10 (a company more fully described below).

11 5.2 Mr. Anderson financed the purchase of Cascade National through a loan
12 from Columbia National Bank ("Columbia") to Legend Holding Company, secured by
13 the common stock of Legend and Cascade National. Legend was formed as an
14 insurance holding company by Mr. Anderson for the purpose of acquiring Cascade
15 National and was wholly owned by Mr. Anderson at the time of the purchase. The
16 loan from Columbia is personally guaranteed by Mr. Anderson. The current
17 outstanding amount of the loan is approximately \$5.9 million.

18 ***Financial Issues***

19 5.3 Cascade National has had a history of financial difficulties requiring
20 increased scrutiny of the company by the Office of the Insurance Commissioner. On
21 March 4, 2003, the OIC issued a notice to Cascade National to cure a deficiency in its
22 capital and surplus, which had fallen below the required minimum amount to be
23 licensed of \$6.1 million. RCW 48.05.340 and .360. The company produced evidence
24 that the deficiency was cured, and the OIC deemed it cured on March 13, 2003.

25 5.4 On October 23, 2003, the OIC issued Cascade National another notice to
26 cure the company's deficiency in capital and surplus. Because of the financial

1 uncertainty of the company, the OIC requested the Board of Directors and they agreed
2 on November 3, 2003, to consent to placing Cascade National in receivership should
3 the Commissioner determine that such action is appropriate. *See Minutes of Special*
4 *Meeting of the Board, and Consent to Action of the Board, attached hereto as Exhibit*
5 *1 and Exhibit 2.* The consent of the Board has not been withdrawn. On February 11,
6 2004, the OIC issued a letter that it deemed the deficiency cured as a result of an
7 infusion of capital into Cascade by a third party. (This infusion of capital will be
8 discussed in more detail below.)

9 5.5 On October 27, 2004, the OIC issued (for the third time) a notice to
10 Cascade National to cure a deficiency in the company's capital and surplus. The
11 deficiency has not been cured. Based upon Cascade National's quarterly financial
12 statement as of September 30, 2004, attached hereto as **Exhibit 3**, the company has a
13 capital and surplus of only \$1,023,046, which is more than \$5 million less than the
14 required \$6.1 million to be licensed as a property and casualty insurer. RCW
15 48.05.340 and .360. It is more likely than not that the company's capital and surplus
16 has further decreased in the subsequent two months. The OIC began conducting a
17 limited scope financial examination of the company on or about September 7, 2004.

18 5.6 In order to further assess Cascade National's financial condition, the OIC
19 requested that the company project its 2004 risk-based capital requirements ("RBC").
20 Cascade National filed its RBC report on November 22, 2004, and supplemented it
21 with a clarification on November 24, 2004.

22 5.7 RBC is "a method of measuring the minimum amount of capital
23 appropriate for an insurer to support its overall business operations in consideration of
24 its size and risk profile." *NAIC Risk-Based Capital Report 10/01/03. See RCW*
25 *48.05.435.* The RBC report identifies four levels: (1) company action level,
26 (2) regulatory action level, (3) authorized control level, and (4) mandatory control

1 level. See 48.05.440, .445, .450, and .455. If the company's capital falls below any
2 one of these levels, the Insurance Code dictates certain action by the company and the
3 Insurance Commissioner.

4 5.8 Based upon Cascade National's projected 2004 RBC levels, the capital
5 of the company is currently substantially below the projected mandatory control level.
6 Moreover, Cascade National projects that its capital at year end is expected to be
7 negative. As such, the Insurance Commissioner is required "to take those actions
8 necessary to place the insurer under regulatory control under chapter 48.31 RCW,"
9 which chapter governs insurance company receiverships.

10 5.9 There are other indications that Cascade National is operating in a
11 financially hazardous condition. They include, but are not limited to, those described
12 below. See WAC 284-16-310.

13 5.10 The California Department of Insurance issued a Cease and Desist Order,
14 No. CD04038941, on or about November 10, 2004, prohibiting Cascade National from
15 writing any new or renewal insurance business of any kind in California, except as
16 may be statutorily mandated. The Cease and Desist Order was based on a Limited
17 Scope Examination dated November 1, 2004, in which the California Department
18 made significant adverse findings against Cascade National. The adverse findings
19 include, but are not limited to, assertions that Cascade National (1) does not exercise
20 appropriate underwriting authority over its workers' compensation exposure, (2) does
21 not have adequate collateral to secure its ultra-high deductible workers' compensation
22 business, (3) does not meet the minimum statutory capital and surplus requirements,
23 (4) has had three consecutive years of operating losses, (5) on a consolidated holding
24 company basis, exceeds the California Department's admission guidelines for outside
25 debt, and (6) has transferred control of the company without the California
26

1 Department's approval to persons or entities that do not meet the Department's
2 criteria. *See* WAC 284-16-310(1).

3 5.11 Cascade National failed three of the seven ratios reported in the quarterly
4 Financial Analysis Solvency Tools ("FAST") Report as of September 30, 2004. The
5 negative percentage change in policyholders' surplus was particularly significant. A
6 FAST Report showing failed ratios is indicative of a company operating in a
7 financially hazardous condition. *See* WAC 284-16-310(2).

8 5.12 Cascade National's operating ratios has been over 100% each year
9 beginning 2001 and increasing. A ratio of 100% is the break-even level. A ratio
10 higher than 100% shows that the company is losing money. The company's operating
11 ratio as of September 30, 2004, is 162.9%. *See* WAC 284-16-310(3).

12 5.13 Cascade National's net loss [operating loss] as of September 30, 2004 is
13 greater than 50% of its remaining surplus as regards policyholders in excess of the
14 minimum required. The company reported a \$6.774 million operating loss, and its
15 capital and surplus as of September 30, 2004, is \$1.023 million, resulting in a loss of
16 6.62 times capital and surplus. *See* WAC 284-16-310(6).

17 5.14 Cascade National has liabilities that affect the solvency of the insurer.
18 American Staff Resources Corporation ("ASRC"), one of Cascade National's two
19 workers' compensation accounts, has failed to fund a deficiency in reserves of
20 \$6,142,866, and growing, under its contract with Cascade National. Cascade National
21 is liable for the losses that ASRC is required to reserve against, even if ASRC fails to
22 fund the reserves. Additionally, Columbia National Bank has declared its loan to
23 Legend, which is secured by the common stock of Cascade National, in default. *See*
24 WAC 284-16-310(8).

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1 ***Management and Control Issues***

2 5.15 In December 2003, Cascade National's parent, Legend Holdings, Inc.,
3 entered into a stock purchase agreement to sell a 9.9% interest in Legend to Gudeman
4 & Weiss, LLC ("G & W"). Until that time, Legend was wholly owned by Harold
5 Anderson, president of Cascade. As a part of the agreement, G & W received a three-
6 year option to purchase the remaining 90.1% from Mr. Anderson. Also under the
7 terms of the agreement, G & W agreed to make monthly payments on behalf of
8 Legend to Columbia Bank, on account of the loan from the bank to Legend, to be
9 credited to the purchase of the option. The infusion of capital as a result of the sale
10 enabled Cascade National to cure its then existing financial impairment.

11 5.16 G & W has filed a Form A Statement pursuant to chapter 48.31B RCW
12 seeking regulatory approval of its exercise of the purchase option and its taking control
13 of Cascade National. The Form A is significantly incomplete, and material
14 information that has been requested by the OIC from the applicants is still missing. As
15 the Form A is being reviewed, the OIC has uncovered serious questions about the
16 financing of the transaction and the persons who may ultimately control the company.

17 5.17 G & W was formed in November 2003 by Edward Gudeman and
18 Eugene Weiss, each making a \$1,000 contribution. Its apparent purpose is to acquire
19 insurance companies that will provide workers' compensation insurance to
20 professional employer organizations ("PEOs"). At some point, Danny Pixler made an
21 \$18,000 contribution and obtained 90% of G & W.

22 5.18 G & W generates no income. The funds to purchase the 9.9% interest in
23 Legend were loaned to G & W by Midwest Merger Management, Inc. ("Midwest
24 Merger"). G & W has a note payable to Midwest Merger in the amount of \$3.5
25 million. Midwest Merger is owned by Sheri Huff (59%), Roxanne Pixler (40%) (wife
26 of Danny Pixler), and Michele Brown (1%).

1 5.19 Midwest Merger is the parent company to multiple entities, including
2 Certified Services, Inc. ("Certified") and American Staff Resources, Inc. ("ASRC").
3 Mr. Pixler is president and CEO of Certified and ASRC. Certified describes itself as a
4 provider of human resource products and services to business including
5 payroll/benefits administration, employee record keeping, and health and workers'
6 compensation insurance programs. ASRC is a professional employer organization
7 through which businesses obtain the services offered by Certified. The workers'
8 compensation insurance offered through ASRC is provided by Cascade National. A
9 diagram of the relationships of these entities and individuals is attached hereto as
10 **Exhibit 4.**

11 5.20 Mr. Pixler is known to be a close business associate of Anthony Huff.
12 Although Anthony Huff does not have a direct ownership interest in Midwest Merger,
13 the majority ownership is in the name of his wife, Sheri Huff. In separate litigation,
14 Mrs. Huff has denied any management or control of Midwest Merger. Based upon
15 information gathered by the OIC, it is believed that Anthony Huff has a role, likely a
16 significant one, in managing Midwest Merger.

17 5.21 As a result of a fourteen (14) count grand jury indictment, Anthony Huff
18 pled guilty to three counts of mail fraud in the United States District Court for the
19 Western District of Kentucky, Case No. CR-00123-01-H, on May 14, 2004. Mr.
20 Huff's felony convictions related to fraudulent acts committed in connection with his
21 business as an insurance agent. Mr. Huff was required to pay criminal monetary
22 penalties and serve probation. Mr. Huff's insurance license was revoked by the state
23 of Kentucky.

24 5.22 It is a federal crime for a person who has been convicted of any criminal
25 felony involving dishonesty or a breach of trust to engage in or participate in the
26 business of insurance. 18 U.S.C. 1033(e).

1 5.23 Mr. Anderson was not originally aware of the connection of Gudeman &
2 Weiss to Midwest Merger and Anthony Huff. However, Mr. Huff's role became more
3 evident over time. Mr. Huff is described as the person responsible for arranging the
4 financing for Gudeman & Weiss to purchase Cascade National. He has also been
5 described as the person who can bring Mr. Pixler into line as necessary. Mr. Huff has
6 spoken to Mr. Anderson about Mr. Huff's plans to re-domesticate Cascade National to
7 Kentucky. Mr. Huff has injected himself directly into reviewing and criticizing the
8 actuarial analyses that Cascade National has received regarding the ASRC workers'
9 compensation insurance account. As a result of the actuarial opinion on the ASRC
10 business, Cascade National has demanded that ASRC fund additional reserves. ASRC,
11 through Anthony Huff and Danny Pixler, has refused to do so.

12 5.24 Mr. Pixler has an indirect minority ownership in Cascade National of
13 only 9.9%. However, his actions with respect to the insurance business of the
14 company would belie his minority interest. He committed Cascade National to
15 offering coverage to a second PEO, named Mainstay, and in fact signed a contract on
16 behalf of the insurer. He did so without authorization from Cascade National. The
17 insurer repudiated the contract presented by Mr. Pixler, but subsequently entered
18 another contract with Mainstay, even though the OIC had previously informed
19 Cascade National that it should not extend its workers' compensation business beyond
20 the ASRC account.

21 5.25 The underwriting process on the ASRC account remains largely with
22 ASRC, under the control of Danny Pixler. Indeed, ASRC has the authority to issue
23 certificates of coverage over the name of Cascade National. Cascade National has
24 reserved final underwriting authority; however, as determined by the California
25 Department of Insurance, the insurer's underwriting controls are inadequate.
26

1 5.26 When Mr. Anderson proposed changing the form of the policy contract
2 between Cascade National and ASRC, a substantive change was inserted that relieved
3 Certified, the parent company of ASRC, of any liability for ASRC's obligations. Mr.
4 Anderson apparently argued about the change with Mr. Pixler but eventually accepted
5 it. However, Cascade National has never verified that ASRC receives any revenue and
6 has always relied on Certified's financial statements. In fact, all of the payments due
7 to Cascade National from ASRC come from Certified's parent, Midwest Merger. It
8 would appear that ASRC is possibly a shell.

9 5.27 Mr. Pixler arranged the negotiation of Cascade National's reinsurance
10 contract through a broker in whom Mr. Pixler has a substantial financial interest. The
11 final policy contract differed in material ways from the proposed contract. Cascade
12 National is now in dispute with the reinsurer and has stated that it has received little
13 assistance from the broker.

14 5.28 Mr. Pixler recently attempted to negotiate with Columbia National Bank
15 to have Legend's loan bought-out or taken out of default. A part of the negotiation
16 was that Mr. Anderson would be relieved of his personal guarantee. The resulting
17 effect would be that Gudeman & Weiss would obtain Mr. Anderson's 90.1% shares of
18 the Legend stock and control of Cascade National without regulatory approval. One of
19 Mr. Pixler's proposals to achieve this result was to acquire funding from the Blue Lake
20 Rancheria tribal nation, which operates Mainstay, in return for transferring the 90.1%
21 interest in Cascade National from G & W to the tribal nation. Acquisition of an
22 insurer by a government entity, such as a tribal nation, is prohibited by law. RCW
23 48.05.045. In addition, the option to purchase under the terms of the December 2003
24 stock purchase agreement is not assignable to third parties, unless they are affiliated
25 entities.
26

5.29 Based upon the OIC's investigation thus far, it appears that Mr. Anderson, even though he has a 90.1% ownership interest, is not in effective control of Cascade National. The insurer and Mr. Anderson, through his personal guarantee, have become financially dependent on persons and entities that are not qualified to engage in the business of insurance. These persons and entities use their positions as both investors and as significant policyholders to control the operations of Cascade National.

VI. RELIEF REQUESTED

The Insurance Commissioner, having established that there are numerous grounds for formal delinquency proceedings and that immediate relief is needed to protect the insurer, all of the policyholders, and the public, requests the following *ex parte* relief:

A. That the Court appoint Mike Kreidler, Insurance Commissioner, as Statutory Receiver; James T. Odiorne, Deputy Insurance Commissioner for Company Supervision, as Receiver; and Marshall McGinnis, Company Licensing Manager for the OIC, as Deputy Receiver; and

B. That the Court enter the Seizure Order submitted herewith that contains the provisions that the Commissioner deems necessary to take control of Cascade National Insurance Company and assess the financial condition and operations of the company; and

C. For such other and further relief as this Court deems necessary.

VERIFICATION

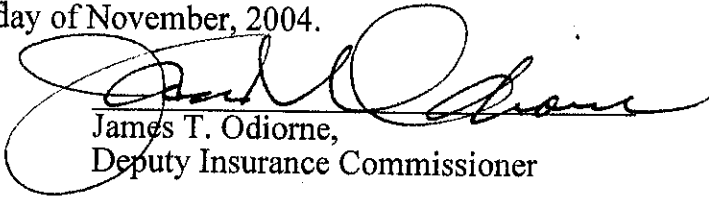
I, James T. Odiorne, Deputy Insurance Commissioner for Company Supervision for the Washington State Office of the Insurance Commissioner, am over 18 years of

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1 age and do solemnly declare and affirm that to the best of my knowledge and belief
2 the facts recited in this Petition are true and correct.

3 DATED this 30th day of November, 2004.

4 
5 James T. Odiorne,
6 Deputy Insurance Commissioner

7 RESPECTFULLY SUBMITTED this 30th day of November, 2004.

8 CHRISTINE O. GREGOIRE
9 Attorney General

10 
11 CHRISTINA GERSTUNG BEUSCH,
12 WSBA No. 18226
13 Assistant Attorney General
14 Attorneys for Office of the Insurance Commissioner
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MINUTES OF SPECIAL MEETING OF BOARD OF DIRECTORS
OF
CASCADE NATIONAL INSURANCE COMPANY

November 3, 2003

Pursuant to notice duly given, a special meeting of the Board of Directors of Cascade National Insurance Company was held on November 3, 2003. The following Directors were present: Donald L. Morrison, Harold Anderson, and Ann Anderson.

Mr. Anderson called the meeting to order.

Mr. Anderson noted that due to the uncertainties surrounding the company, the Insurance Commissioner had requested the board agree to not contest a petition for a court order of rehabilitation should the Insurance Commissioner deem such action to be appropriate.

Mr. Anderson stated that less information about the company will need to be placed in court files if a majority of the board consents to the appointment of the Insurance Commissioner as the rehabilitator.

Mr. Anderson then moved that the Board agree to the appointment of the Insurance Commissioner as rehabilitator if the Commissioner deems it necessary. There being no discussion, the Board unanimously approved the motion.

There being no further business, the meeting was adjourned.

Respectfully submitted,

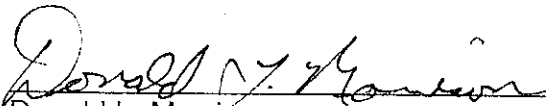

Donald L. Morrison
Recording Secretary

EXHIBIT 1

CONSENT TO ACTION OF BOARD OF DIRECTORS

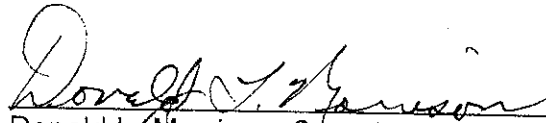
CASCADE NATIONAL INSURANCE COMPANY

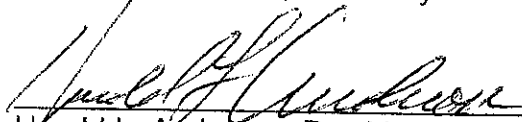
The following Resolution was duly adopted at a special meeting of the Board of Directors of Cascade National Insurance Company on November 3, 2003.

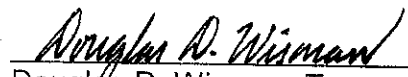
IT IS RESOLVED:


1. Due to the uncertainties surrounding the company, the Insurance Commissioner had requested that the Board agree to not contest a petition for a court order of rehabilitation should the Insurance Commissioner deem such action to be appropriate.
2. The Board of Directors agrees to the appointment of the Insurance Commissioner as rehabilitator if the Commissioner deems it necessary.

The undersigned is the Secretary of the Corporation and the above Resolution is a true and correct copy of the Resolution duly adopted at a meeting of the Board at which a quorum was present on November 3, 2003.


Donald L. Morrison, Secretary


Harold L. Anderson, President


Douglas D. Wisman, Treasurer


Ann M. Anderson



QUARTERLY STATEMENT

As of September 30, 2004
of the Condition and Affairs of the

Cascade National Insurance Company

NAIC Group Code.....
(Current Period) (Prior Period)

NAIC Company Code..... 10175

Employer's ID Number..... 91-1663413

Organized under the Laws of Washington
Incorporated..... December 20, 1994

State of Domicile or Port of Entry Washington

Country of Domicile US

Commenced Business..... December 23, 1994

Statutory Home Office
11100 NE 8th St, Suite 420 Bellevue WA 98004
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office
11100 NE 8th St, Suite 420 Bellevue WA 98004
(Street and Number) (City or Town, State and Zip Code)

425-460-8700
(Area Code) (Telephone Number)

Mail Address
11100 NE 8th St, Suite 420 Bellevue WA 98004
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records
11100 NE 8th St, Suite 420 Bellevue WA 98004
(Street and Number) (City or Town, State and Zip Code)

425-460-8700
(Area Code) (Telephone Number)

Internet Website Address
n/a

Statutory Statement Contact
Michele A. Klein
(Name)
mklein@cascadenational.com
(E-Mail Address)

425-460-8700
(Area Code) (Telephone Number) (Extension)

425-460-0065
(Fax Number)

Policyowner Relations Contact
11100 NE 8th St, Suite 420 Bellevue WA 98004
(Street and Number) (City or Town, State and Zip Code)

425-460-8700
(Area Code) (Telephone Number) (Extension)

OFFICERS

Name	Title	Name	Title
1. Harold L. Anderson	President	2. Donald L. Morrison	Treasurer
3. William T. Lebo	Secretary	4.	
OTHER			
Douglas M. England	Vice President - Claims	John R. Ference	Vice President - Underwriting
Michele A. Klein	Director of Finance	William J. Stoack	Chief Information Officer

DIRECTORS OR TRUSTEES

Harold L. Anderson	Ann M. Anderson	Donald L. Morrison	William T. Lebo
Eugene M. Weiss			

State of..... Washington
County of..... King

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, which is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Harold L. Anderson	Donald L. Morrison	Michele A. Klein
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President	Treasurer	Director of Finance
(Title)	(Title)	(Title)

Subscribed and sworn to before me
This 15th day of November, 2004

a. Is this an original filing?
Yes [X] No []

b. If no:
1. State the amendment number
2. Date filed
3. Number of pages attached

Cascade National Insurance Company**ASSETS**

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds.....	1,247,690		1,247,690	1,800,026
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....			0	1,800,000
3. Mortgage loans on real estate:				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....15,006,005), cash equivalents (\$.....0) and short-term investments (\$.....1,354,282).....	16,360,288		16,360,288	6,670,763
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets.....			0	
8. Receivable for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	17,607,978	0	17,607,978	10,270,789
11. Investment income due and accrued.....	33,386		33,386	21,090
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in course of collection.....	4,546,609	18,713	4,526,896	1,954,565
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	2,158,472		2,158,472	939,412
12.3 Accrued retrospective premiums.....			0	
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers.....	2,116,083		2,116,083	1,928,348
13.2 Funds held by or deposited with reinsured companies.....			0	
13.3 Other amounts receivable under reinsurance contracts.....			0	(237,165)
14. Amounts receivable relating to uninsured plans.....			0	
15.1 Current federal and foreign income tax recoverable and interest thereon.....			0	49,661
15.2 Net deferred tax asset.....	561,923	561,923	0	504,942
16. Guaranty funds receivable or on deposit.....			0	
17. Electronic data processing equipment and software.....			0	
18. Furniture and equipment, including health care delivery assets (\$.....0).....			0	
19. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
20. Receivable from parent, subsidiaries and affiliates.....	515,580		515,580	1,643,494
21. Health care (\$.....0) and other amounts receivable.....			0	
22. Other assets nonadmitted.....			0	
23. Aggregate write-ins for other than invested assets.....	392,790	9,757	383,033	412,691
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	27,932,821	591,393	27,341,428	17,487,827
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	27,932,821	591,393	27,341,428	17,487,827

DETAILS OF WRITE-INS

0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Misc receivable.....	392,790	9,757	383,033	310,528
2302. Premium Taxes Receivable.....			0	102,163
2303.....			0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	392,790	9,757	383,033	412,691

Cascade National Insurance Company**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....2,002,175).....	12,574,679	7,453,589
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	671,118	415,943
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	204,182	216,623
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	294,222	
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....0 and including warranty reserves of \$.....0).....	5,791,984	4,354,636
10. Advance premium.....		
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	3,018,664	(1,229,098)
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....	3,755,507	
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....		3
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		
20. Payable for securities.....		
21. Liability for amounts held under uninsured accident and health plans.....		
22. Capital notes \$.....0 and interest thereon \$.....0.....		
23. Aggregate write-ins for liabilities.....	7,826	0
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23).....	26,318,382	11,211,696
25. Protected cell liabilities.....		
26. Total liabilities (Lines 24 and 25).....	26,318,382	11,211,696
27. Aggregate write-ins for special surplus funds.....	0	0
28. Common capital stock.....	3,000,000	3,000,000
29. Preferred capital stock.....	2,000,000	1,000,000
30. Aggregate write-ins for other than special surplus funds.....	0	0
31. Surplus notes.....		
32. Gross paid in and contributed surplus.....	6,355,000	5,300,000
33. Unassigned funds (surplus).....	(10,331,954)	(3,023,869)
34. Less treasury stock, at cost:		
34.10.000 shares common (value included in Line 28 \$.....0).....		
34.20.000 shares preferred (value included in Line 29 \$.....0).....		
35. Surplus as regards policyholders (Lines 27 to 33, less 34).....	1,023,046	6,276,131
36. TOTALS.....	27,341,428	17,487,827

DETAILS OF WRITE-INS

2301. Misc payable.....	7,826	
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	7,826	0
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page.....	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	0	0
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	0	0

STATEMENT OF INCOME

	1 Current Year to Date	2 Previous Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct..... (written \$.....16,933,351).....	16,279,903	16,625,067	21,286,643
1.2 Assumed..... (written \$.....0).....			
1.3 Ceded..... (written \$.....5,391,482).....	6,173,819	6,008,619	7,829,375
1.4 Net..... (written \$.....11,541,869).....	10,106,084	10,616,448	13,457,268
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....3,340,967):			
2.1 Direct.....	15,235,660	11,509,627	17,880,476
2.2 Assumed.....			
2.3 Ceded.....	3,585,929	5,676,119	9,415,754
2.4 Net.....	11,649,731	5,833,508	8,464,722
3. Loss expenses incurred.....	1,952,479	2,525,539	2,971,541
4. Other underwriting expenses incurred.....	3,359,428	3,571,346	4,787,214
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	16,961,638	11,930,393	16,223,477
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(6,855,554)	(1,313,945)	(2,766,209)
INVESTMENT INCOME			
9. Net investment income earned.....	74,801	165,099	262,714
10. Net realized capital gains (losses).....			118,954
11. Net investment gain (loss) (Lines 9 + 10).....	74,801	165,099	381,668
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....0).....			
13. Finance and service charges not included in premiums.....			
14. Aggregate write-ins for miscellaneous income.....	0	0	0
15. Total other income (Lines 12 through 14).....	0	0	0
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15).....	(6,780,753)	(1,148,846)	(2,384,541)
17. Dividends to policyholders.....			
18. Net income after dividends to policyholders but before federal and foreign income taxes (Line 16 minus 17).....	(6,780,753)	(1,148,846)	(2,384,541)
19. Federal and foreign income taxes incurred.....	(7,077)	(14,944)	(2,974)
20. Net income (Line 18 minus Line 19) (to Line 22).....	(6,773,676)	(1,133,902)	(2,381,567)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....	6,276,131	6,054,918	6,054,918
GAINS AND (LOSSES) IN SURPLUS			
22. Net income (from Line 20).....	(6,773,676)	(1,133,902)	(2,381,567)
23. Change in net unrealized capital gains or losses.....			
24. Change in net unrealized foreign exchange capital gain (loss).....			
25. Change in net deferred income taxes.....	5,536	211,198	(209,145)
26. Change in nonadmitted assets.....	(539,948)	(1,319,318)	45,971
27. Change in provision for reinsurance.....	3		2,852
28. Change in surplus notes.....			
29. Surplus (contributed to) withdrawn from protected cells.....			
30. Cumulative effect of changes in accounting principles.....			
31. Capital changes:			
31.1 Paid in.....	2,055,000	1,800,000	2,800,000
31.2 Transferred from surplus (Stock Dividend).....			
31.3 Transferred to surplus.....			
32. Surplus adjustments:			
32.1 Paid in.....			
32.2 Transferred to capital (Stock Dividend).....			
32.3 Transferred from capital.....			
33. Net remittances from or (to) Home Office.....			
34. Dividends to stockholders.....			
35. Change in treasury stock.....			
36. Aggregate write-ins for gains and losses in surplus.....	0	0	(36,898)
37. Change in surplus as regards policyholders (Lines 22 through 36).....	(5,253,085)	(442,022)	221,213
38. Surplus as regards policyholders, as of statement date (Lines 21 plus 37).....	1,023,046	5,612,896	6,276,131
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401. Misc income.....			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
3601. Prior Year Audit Adjustment.....			(36,898)
3602.			
3603.			
3698. Summary of remaining write-ins for Line 36 from overflow page.....	0	0	0
3699. Totals (Lines 3601 thru 3603 plus 3698) (Line 36 above).....	0	0	(36,898)

CASH FLOW

	1 Current Year to Date	2 Prior Year Ended December 31
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	11,980,280	11,908,759
2. Net investment income.....	62,505	315,293
3. Miscellaneous income.....		
4. Total (Lines 1 through 3).....	12,042,795	12,224,052
5. Benefit and loss related payments.....	6,953,541	9,156,179
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	4,774,951	7,533,066
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) \$.....0 net tax on capital gains (losses).....	(56,738)	(198,346)
10. Total (Lines 5 through 9).....	11,671,754	16,490,899
11. Net cash from operations (Line 4 minus Line 10).....	371,041	(4,266,847)
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	552,336	2,975,225
12.2 Stocks.....	1,800,000	
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....		
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	2,352,336	2,975,225
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....		
13.2 Stocks.....		1,800,000
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	0	1,800,000
14. Net increase (decrease) in policy loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	2,352,336	1,175,225
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....	2,055,000	2,800,000
16.3 Borrowed funds received.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	4,911,148	(657,374)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	6,966,148	2,142,626
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17).....	9,689,525	(948,996)
19. Cash and short-term investments:		
19.1 Beginning of year.....	6,670,763	7,619,759
19.2 End of period (Line 18 plus Line 19.1).....	16,360,288	6,670,763
Note: Supplemental disclosures of cash flow information for non-cash transactions:		
20.0001		
20.9999 Totals.....	0	0

Gudeman & Weiss, LLC RELATIONSHIPS OF THE PARTIES

